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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [AR](#) [BL](#)
SUBJECT: ARGENTINA PUBLIC AND PRIVATE SECTOR REACTION TO
BOLIVIA'S NATIONALIZATION OF OIL AND GAS RESERVES

REF: A. BUENOS AIRES 119

[1](#)B. BUENOS AIRES 140

Summary

[1](#)1. (C) Bolivian President Evo Morales nationalized the country's oil and gas reserves by decree on May 1. The decree fulfilled one of Morales' most prominent campaign pledges, but the scope and speed of the decision came as a shock to Argentine officials and business representatives alike. GOA officials have responded to the nationalization with assurances that they will monitor developments closely and will coordinate closely with Brazil. U.S. and Argentine oil and gas firms have adopted a "wait and see" approach before making a decision on the future of their Bolivia-related investments. An industry analyst noted the nationalization decree will pressure the GOA into a decision on meeting rising natural gas demands going forward. End Summary.

Morales Nationalizes Hydrocarbons Resources

2 (U) Bolivian President Evo Morales fulfilled one of his most prominent campaign pledges on May 1 when he nationalized the country's oil and gas reserves by decree on his 100th day in office. Argentine officials and industry representatives told Embassy officers they were surprised by the timing and suddenness of the decision and Morales' deployment of troops to assist with its implementation.

GOA Reacts with Shock, Concern

[1](#)3. (C) The Ambassador spoke to Secretary of the Presidency Carlos Zannini about the nationalization on May 2. Zannini said that the Bolivian action took the GOA by surprise. He doubted that Bolivian authorities would be able to manage the

nationalized reserves by themselves, if it comes to that. He also expressed concern about the price of natural gas that Argentina currently imports from Bolivia. Zannini further speculated that the GOB action might be a "negotiating ploy."

¶4. (C) MFA Deputy Foreign Minister Roberto Garcia Moritan confirmed to the Ambassador that Argentina was surprised by the GOB action. Argentina is currently evaluating events in Bolivia and is coordinating closely with Brazil. Garcia Moritan offered to meet with the Ambassador later in the week once the dust had settled.

U.S. Oil Companies Taking a Wait-and-See Approach

¶5. (C) The Economic Counselor also spoke to the CEOs of two U.S. companies and the principal Argentine oil company that have oil and gas investments in Bolivia. All three CEOs said it was too early to tell the impact of the decree as there is no detail explaining how the nationalization will take place.

For example, the decree states that the GOB will take control of production and marketing in Bolivia and for export. Nevertheless, there are no instructions as to where the oil and gas would be transferred to the GOB, who pays royalties, and what happens to existing contracts. Meanwhile, all three companies continue to operate normally and safely.

¶6. (C) Pan American Energy CEO Felipe Bayon confirmed that Petrobras, (Andina) Repsol, Total, and Chaco (50 percent owned by Pan American), and Transredes (Enron and Shell) are the companies that are the largest producers and the most affected by the decree. The decree seeks to take over the

"capitalizadas" that took over parts of the former state oil company by: 1) taking over that portion of the shares owned by the state pension fund; and 2) asking the companies to turn over enough additional shares to give the GOB 51 percent control of the companies. It is not clear how this would happen, but if it did happen, there would be no guarantee that the GOB would not drag the company into bad investments, higher operating costs or bureaucratic inefficiencies, actions that could eventually destroy the value of the company. The decree also seeks to increase the governments share of production from 50 percent to 82 percent in those fields that produce more than 100 million cubic feet of gas per day. Finally, the decree seeks to take over a number of refineries owned by Petrobras. Some of the larger companies will be impacted by two or three of these measures. Finally, the decree declares that any company that refuses to accept the terms of the decree will lose their concessions immediately. Bayon added that the military occupation of the larger fields had no direct relationship with the volume of production. For example, Chaco has fields that were occupied that produce less than 100 million cubic feet per day. He added that there were "quite a few Venezuelan technicians running around the fields helping the YPFB run things." Bayon concluded that Pan American had not ruled out filing a claim with the International Center for the Settlement of Investment Disputes (ICSID).

¶7. (C) The DCM later spoke to Pan American Chairman and Argentine part-owner Alejandro Bulgheroni. Bulgheroni said that he and other Pan American executives had been in Bolivia during the week of April 24 and had spoken to Bolivian President Morales and Vice President Linera about the proposed Argentine-Bolivian (GNA) natural gas pipeline. The Bolivians had said that everything was fine with going ahead with the pipeline. The result was that they had been completely blindsided by the decree. He noted that the decree was the "coup de grace" for the GNA pipeline. In his view, "no one in his right mind would invest anything in Bolivia." Bulgheroni said that "taken literally" the decree amounted to confiscation, since there is no discussion of the mechanism for compensation. This could change, so Pan American will wait to see if the GOB offers any compensation before taking further action. Pan American had already shown

flexibility in the recent past and had agreed to work with the GOB in accommodating the new hydrocarbons law. In the meantime, Pan American is preparing to file a claim with ICSID. Bulgheroni also noted that many of the oil and gas projects in Bolivia had heavy World Bank (IFC) exposure and that it was time for the international financial institutions and the G-7 to "stand united and take a hard line in Bolivia."

18. (C) Vintage of the U.S. President Michael Kyle said he was surprised at the aggression expressed against Repsol of Spain and Petrobras of Brazil. He thought the GOB had sent a strong message to the oil and gas companies, but he was not sure whether the message was, "pack your bags" or "we want a larger participation in your business." He thought Vintage might not be as affected by the decree since the company's operations in four different fields produced only 30 million cubic feet per day. He also expressed doubts about the continued exports of gas to Argentina, since "the GOA will not be able to lean on Repsol to continue to export gas to Argentina if it is not making money in Bolivia."

Argentine Firms Also Take "Wait and See" Approach

19. (C) Plus Petrol of Argentina CEO Steven Crowell thought there was a huge emotional component in the decree in the way that it lashed out at Repsol of Spain and Petrobras of Brazil. He noted that whenever Repsol's Spanish CEO Antonio Brufau travels to Bolivia, "things only get worse." He compared it with the strong domestic reaction against the Meza government's proposed exports of natural gas through Chile. "They can't get past their national history," he

said. Like Kyle, Crowell thought that Plus Petrol's operations "might still be under the radar," since the company only produced 35 million cubic feet of natural gas per day from a single field (Tacabo).

110. (C) Techint's Director for Institutional Relations Gabriel Sbruzzi told Econoff that the company had expected Morales to nationalize Bolivia's hydrocarbons resources. (Note: Techint is an Argentine holding company with oil and gas as well as steel producing assets around the world. Techint developed the Camisea pipeline in Peru. End Note.) He added that the company was surprised at how Morales had chosen to implement his campaign pledge and that the decision was "all bad news for Argentina." Sbruzzi speculated that Morales' decision will have "a damaging effect on long-term investment in Bolivia." He was more circumspect, however, about the prospects of Techint's involvement in the development of the GNA pipeline and expansion of Bolivia's natural gas producing capacity. "As a result of Morales' decision, we are simply putting our plans on hold," Sbruzzi said. He said the company will be closely monitoring the six-month contract renegotiation process with YPF-Bolivia that Morales' May 1 decree has mandated. Sbruzzi said the outcome of those renegotiations will be critical to the scope of Techint's investments in Bolivia.

Local Energy Consultant Has a Harsher View

111. (C) The Economic Counselor also spoke with local energy consultant Daniel Gerold who described the decree as "extremely aggressive," "very overdone," and "much tougher" than anything that had been discussed or negotiated before. He noted that the decree states that oil and gas companies must accept the new conditions immediately or lose their operating rights. If the companies refuse, YPFB engineers and the Bolivian military will operate the fields. If the companies agree, they have 180 days to sign new contracts to become service operators and will obtain a service fee based on past investments and earnings. There is no way of predicting what these fees will be, so companies are before forced to accept the new conditions without knowing what they involve. The companies which operate the large fields will

not be able to continue to operate when they have to take 100 percent out of their costs out of the remaining 18 percent of their production. He thought that Bolivian Vice President Linera was the "mastermind" behind the decree and noted that Linera had recently said that "every Bolivian should be prepared to defend the nationalization of the oil and gas sector with his life."

¶12. (C) Gerold has regular contact with Secretary of Energy Daniel Cameron, who had been sent by Minister of Planning Julio DeVido to Bolivia on April 27-28 to try to negotiate the purchase of additional volumes of gas from Bolivia. He said that Cameron had been completely blindsided by the decree, which tracks with what Bulgheroni told the DCM. Gerold added that Cameron was worried about both the continued importation of gas from Bolivia and the feasibility of importing larger volumes of gas in the future. Gerold also noted that Venezuelan President Chavez had immediately said that he would invest in Bolivia and would provide "whatever is needed" to develop the sector. That might be the only way forward for the GNA pipeline, since no one else would want to invest in Bolivia. He concluded that, "the GNA pipeline is dead unless there is a significant increase in the role of the Argentine state and Chavez finances it." This, in turn, will bring "delays, higher costs, and the risk of insufficient supply in the coming years." Gerold added that the developments in Bolivia would put pressure on the GOA, since radical elements will point to the nationalizations in Venezuela and Bolivia and ask why the same thing can not be done in Argentina.

¶13. (C) Gerold stated, reflecting on the weekend's events, that "this is a disaster for Argentina." He remarked that the nationalization decree puts the GOA in a difficult position. If GOA goes ahead with the GNA, according to Gerold, it will be seen as tacitly supporting Morales' and Chavez's actions against Repsol of Spain and Petrobras of Brazil. At the same time, he said, the GOA cannot afford further delays in making a decision on advancing with the GNA pipeline or expanding the capacity of existing pipelines to Neuquen or the Austral region. Gerold observed that if the GOA proceeds with development of the GNA pipeline, Bolivian gas will not arrive to Argentina until 2008 or 2009, despite reliable forecasts that domestic demand for natural gas is expected to create serious shortages in 2007. Secretary of Energy Daniel Cameron has not made any decisions either on developing the GNA pipeline or on expanding existing pipeline capacity in last three years, according to Gerald. Demand has, meanwhile, been growing at a rapid rate and domestic production has lagged. Gerold lamented that "the GOA does not understand Bolivia, its own domestic priorities, or the big energy picture in the region."

Comment

¶14. U.S and local companies are taking a "wait and see" approach. They all see the nationalization as a step in the wrong direction, however, and are not optimistic going forward. The GOA's initial reaction has also been "wait and see," but officials have not expressed optimism regarding the outcome of Morales' decree. Post agrees with Gerold's assessment that time is running out for the GOA to address its rising energy needs. Failure to build the GNA pipeline or to expand the capacity of existing domestic pipelines will limit opportunities for industrial growth while the GOA continues to prioritize natural gas availability for residential users in major metropolitan areas. A decision to abandon efforts to build the GNA Pipeline means the GOA will need to proceed with the expansion of domestic pipelines, which will lead to a more rapid reduction of Argentina's gas exports to Chile. The Government of Chile, however, has probably already seen the handwriting on the wall, as evidenced by its decision to proceed with the USD 300 million degasification project in the Port of Ventanas.

¶15. (U) To see more Buenos Aires reporting, visit our

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<http://www.state.sgov.gov/p/wha/buenosaires.< /a>>
GUTIERREZ